

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended May 30, 1992

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-8210

PAYLESS CASHWAYS, INC.

(Exact name of registrant as specified in its charter)

Iowa

(State or other jurisdiction of
incorporation or organization)

42-0945849

(I.R.S. Employer
Identification No.)

Two Pershing Square
2300 Main, P.O. Box 419466

Kansas City, Missouri

(Address of principal executive offices)

64141-0466

(Zip Code)

Registrant's telephone number, including area code: (816) 234-6000

Indicate by check mark whether the registrant: (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date.

Common Stock, \$.01 par value, outstanding as of June 19, 1992:

Class A	--	3,751,322	shares
Class B	--	1,125,000	shares
Class C	--	900	shares
Class D	--	2,250,000	shares

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PAYLESS CASHWAYS, INC. AND SUBSIDIARY

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) (1)

(In thousands, except per share amounts)	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	May 30, 1992	May 25, 1991	May 30, 1992	May 25, 1991
Income				
Net sales	\$682,342	\$635,250	\$1,152,933	\$1,075,874
Other income	<u>1,060</u>	<u>1,053</u>	<u>1,982</u>	<u>2,194</u>
	683,402	636,303	1,154,915	1,078,068
Costs and expenses				
Cost of merchandise sold	479,215	446,624	797,094	745,218
Selling, general and administrative	141,328	132,028	268,842	251,077
Special charges (8)	6,500	--	6,500	--
Provision for depreciation and amortization	13,579	14,321	27,065	28,644
Interest	<u>38,816</u>	<u>38,564</u>	<u>77,203</u>	<u>77,205</u>
	679,438	631,537	1,170,204	1,102,144
INCOME (LOSS) BEFORE INCOME TAXES (BENEFIT)	3,964	4,766	(21,789)	(24,076)
Income taxes (benefit)(6)	<u>455</u>	<u>479</u>	<u>(2,506)</u>	<u>(2,694)</u>
Income (loss) before cumulative effect of change in accounting principle	3,509	4,287	(19,283)	(21,382)
Cumulative effect on prior years of change in accounting for postretirement benefits (7)	--	--	(6,902)	--
NET INCOME (LOSS)	<u>\$ 3,509</u>	<u>\$ 4,287</u>	<u>\$ (26,185)</u>	<u>\$ (21,382)</u>
Income (loss) per common share before cumulative effect of change in accounting principle	\$.32	\$.43	\$ (3.26)	\$ (3.55)
Cumulative effect of change in accounting principle per common share (7)	--	--	(1.05)	--
Net income (loss) per common share (3)	<u>\$.32</u>	<u>\$.43</u>	<u>\$ (4.31)</u>	<u>\$ (3.55)</u>
Weighted average common and dilutive common equivalent shares outstanding	<u>7,576</u>	<u>7,648</u>	<u>6,571</u>	<u>6,571</u>

See Notes to Condensed Consolidated Financial Statements

PAYLESS CASHWAYS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS (1)

(In thousands)	May 30, 1992 (Unaudited)	November 30, 1991	May 25, 1991 (Unaudited)
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents	\$ 39,669	\$ 36,619	\$ 37,818
Trade receivables	7,596	5,983	6,453
Merchandise inventories (2)	393,187	347,597	372,701
Prepaid expenses and other current assets	13,293	20,529	11,255
Deferred income taxes	<u>9,782</u>	<u>--</u>	<u>--</u>
TOTAL CURRENT ASSETS	463,527	410,728	428,227
OTHER ASSETS			
Real estate held for sale	11,914	11,914	14,655
Cost in excess of net assets acquired, less accumulated amortization of \$49,813, \$43,305 and \$36,797, respectively	470,853	477,361	483,869
Deferred financing costs	27,494	29,392	31,315
Other	<u>7,714</u>	<u>7,138</u>	<u>6,357</u>
LAND, BUILDINGS AND EQUIPMENT	681,333	680,590	668,147
Allowance for depreciation and amortization	<u>(157,615)</u>	<u>(142,073)</u>	<u>(125,166)</u>
	<u>523,718</u>	<u>538,517</u>	<u>542,981</u>
	<u>\$1,505,220</u>	<u>\$1,475,050</u>	<u>\$1,507,404</u>

See Notes to Condensed Consolidated Financial Statements

PAYLESS CASHWAYS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS (1) (Cont'd.)

(In thousands)	May 30, 1992 (Unaudited)	November 30, 1991	May 25, 1991 (Unaudited)
<u>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</u>			
<u>CURRENT LIABILITIES</u>			
Current portion of long-term debt	\$ 65,514	\$ 79,738	\$ 65,602
Trade accounts payable	176,919	133,617	167,220
Other current liabilities	133,336	127,715	119,130
Deferred income taxes	--	4,088	5,440
<u>TOTAL CURRENT LIABILITIES</u>	<u>375,769</u>	<u>345,158</u>	<u>357,392</u>
 LONG-TERM DEBT, less portion classified as current liability (4)	 1,014,950	 998,047	 1,023,112
 DEFERRED CREDITS			
Income taxes	73,675	65,346	67,838
Other	15,160	15,605	16,124
 COMMON STOCK SUBJECT TO PUTS AND CALLS (5)	 6,579	 5,621	 5,788
 WARRANTS SUBJECT TO PUTS (5)	 18,242	 18,242	 18,242
 <u>SHAREHOLDERS' EQUITY (DEFICIT)</u>			
Preferred Stock, \$1.00 par value, 18,000,000 shares authorized; issued: Series A Cumulative Convertible Preferred Stock, 406,000 shares at redemption value	40,600	40,600	40,600
Common Stock, \$.01 par value: Class A, 54,000,000 shares authorized, 3,751,322, 3,700,956 and 3,715,984 shares issued (less 556,322, 505,956 and 520,984 shares subject to puts and calls)	32	32	32
Class B, 54,000,000 shares authorized, 1,125,000 shares issued	11	11	11
Class C, 900 shares authorized, 900 shares issued	--	--	--
Class D, 22,500,000 shares authorized, 2,250,000 shares issued	23	23	23
Additional paid-in capital	70,108	70,108	70,108
Retained deficit	(109,929)	(83,743)	(91,866)
	<u>845</u>	<u>27,031</u>	<u>18,908</u>
	<u>\$1,505,220</u>	<u>\$1,475,050</u>	<u>\$1,507,404</u>

See Notes to Condensed Consolidated Financial Statements

PAYLESS CASHWAYS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (1)

(In thousands)

	<u>Twenty-Six Weeks Ended</u>	
	<u>May 30, 1992</u>	<u>May 25, 1991</u>
Cash Flows from Operating Activities		
Net loss	\$(26,185)	\$(21,382)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	27,065	28,644
Noncash interest	27,073	22,964
Cumulative effect on prior years of change in accounting for post-retirement benefits (7)	6,902	--
Deferred income taxes	(5,541)	(2,823)
Other	674	406
Changes in assets and liabilities	<u>2,054</u>	<u>9,593</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	32,042	37,402
Cash Flows from Investing Activities		
Additions to land, buildings and equipment	(6,813)	(22,055)
Proceeds from sale of land, buildings and equipment	1,055	238
Increase in other assets	<u>(576)</u>	<u>(586)</u>
NET CASH USED IN INVESTING ACTIVITIES	(6,334)	(22,403)
Cash Flows from Financing Activities		
Retirements of long-term debt	(22,387)	(10,719)
Other	(271)	(1,972)
NET CASH USED IN FINANCING ACTIVITIES	<u>(22,658)</u>	<u>(12,691)</u>
Net increase in cash and cash equivalents	3,050	2,308
Cash and cash equivalents, beginning of period	<u>36,619</u>	<u>35,510</u>
Cash and cash equivalents, end of period	<u>\$ 39,669</u>	<u>\$ 37,818</u>

See Notes to Condensed Consolidated Financial Statements

PAYLESS CASHWAYS, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Twenty-six weeks ended May 30, 1992 and May 25, 1991.

- (1) The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q. To the extent that information and footnotes required by generally accepted accounting principles for complete financial statements are contained in or consistent with the audited consolidated financial statements incorporated by reference in the Company's Form 10-K for the year ended November 30, 1991, such information and footnotes have not been duplicated herein. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of financial statements have been reflected herein. The November 30, 1991, condensed consolidated balance sheet has been derived from the audited consolidated financial statements as of that date.

Federal and state income taxes paid, net of refunds, during the twenty-six weeks ended May 30, 1992 were approximately \$2.2 million and income tax refunds, net of taxes paid, during the twenty-six weeks ended May 25, 1991 were approximately \$5.6 million. Cash payments for interest, net of interest capitalized, were \$53.0 million and \$56.0 million for the twenty-six weeks ended May 30, 1992 and May 25, 1991, respectively.

- (2) Approximately 82% of the Company's inventories are valued using the LIFO (last-in, first-out) method. Because inventory determination under the LIFO method is only made at the end of each fiscal year based on the inventory levels and costs at that time, interim LIFO determinations must necessarily be based on management's estimates of expected year-end inventory levels and costs. Since future estimates of inventory levels and costs are subject to change, interim financial results reflect the Company's most recent estimate of the effect of inflation and are subject to final year-end LIFO inventory amounts. If the FIFO (first-in, first-out) method of inventory accounting had been used by the Company, inventories would have been \$20.9 million, \$17.0 million and \$18.4 million higher than reported at May 30, 1992, November 30, 1991, and May 25, 1991, respectively.
- (3) Net loss per common share has been computed based on the average number of common shares outstanding during the period plus common stock equivalents, when dilutive, consisting of shares subject to puts and calls, certain stock options and warrants. For purposes of this computation, net loss was adjusted for dividend requirements on preferred stock, changes in the redemption value of both common stock subject to puts and calls and warrants subject to puts, and interest expense reduction (net of tax) applicable to the exercise of warrants and stock options, when these items were dilutive. Additional shares of common stock issuable upon the conversion of convertible preferred stock (which is not a common stock equivalent) and the exercise of performance-based stock options have been considered only when the impact is dilutive.

PAYLESS CASHWAYS, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(4) Long-term debt consisted of the following:	May 30,	May 25,
	1992	1991
	(In thousands)	
Merger Credit Agreement	\$ 217,695	\$ 269,467
Mortgage loan payable to insurance company	230,243	230,243
Senior subordinated debentures	317,124	316,240
Junior subordinated debentures	311,162	263,922
Other senior debt	4,240	8,842
	<u>1,080,464</u>	<u>1,088,714</u>
Less portion classified as current liability	<u>(65,514)</u>	<u>(65,602)</u>
	<u>\$1,014,950</u>	<u>\$1,023,112</u>

- (5) During the twenty-six weeks ended May 25, 1991, the common stock subject to puts and calls and the warrants subject to puts were adjusted approximately \$1.0 million and \$2.3 million, respectively, to reflect a decrease in estimated redemption value (fair value). These adjustments have been reported as a credit to retained deficit.
- (6) Effective December 1, 1991, the Company prospectively adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The cumulative effect of applying the new accounting standard to years prior to fiscal 1992 and the effect of adopting the new standard on operating results for the twenty-six weeks ended May 30, 1992 are immaterial to the consolidated financial statements.
- (7) The Company has defined benefit postretirement plans that provide health and life insurance benefits for retirees and eligible dependents. The health plan is contributory and contains cost sharing features such as deductibles and coinsurance. The plans are not funded.

Effective December 1, 1991, the Company changed its method of accounting for postretirement benefits other than pensions and adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." Under Statement 106, the cost of postretirement benefits other than pensions is recognized on an accrual basis as employees perform services. The Company elected to recognize the December 1, 1991 transition obligation as a one-time charge to earnings during the thirteen weeks ended February 29, 1992. The cumulative effect of this change in accounting principle of \$6,902,000 (after reduction for income tax benefits of \$3,556,000) is presented in the accompanying consolidated statements of operations.

The effect of the change in accounting principle on net loss from continuing operations for the twenty-six weeks ended May 30, 1992, and the pro forma effect of the change as if the newly adopted method had been applied retroactively to the twenty-six weeks ended May 25, 1991 are immaterial. Postretirement benefit costs on a cash basis, the accounting

PPAYLESS CASHWAYS, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

method used prior to adoption of Statement 106, were \$231,000 and \$195,000 for the twenty-six weeks ended May 30, 1992, and May 25, 1991, respectively.

The following table sets forth the plans' funded status at December 1, 1991 (in thousands), upon adoption of Statement 106:

Accrued postretirement benefit cost included	
in other accrued expenses:	
Retirees	\$ 6.725
Active plan participants	3.733
	<u>\$ 10.458</u>

The December 1, 1991 accumulated postretirement benefit was calculated assuming an 8.5% discount rate. A 6.0% rate of increase in future compensation levels was used as it applied to certain life insurance benefits.

For measurement purposes, the health-care cost trend rate was 13.0% for 1992. The rate was assumed to decrease gradually to 5.9% by the year 2001 and remain at that level thereafter. The effect of a 1.0% annual increase in these assumed cost trend rates would increase the December 1, 1991 accumulated postretirement benefit obligation by approximately \$532,000.

- (8) Special charges reflecting the fees and expenses incurred in connection with the Company's withdrawn recapitalization plan are included in the periods ended May 30, 1992.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Sales

Net sales for the quarter ended May 30, 1992 increased 7.4% over the same period of 1991 in total and on a comparable-store sales basis. (Comparable stores are those open one full year.) Net sales for the first half of 1992 increased 7.2% over the same period of 1991 in total and on a comparable-store sales basis. Net sales increased for both periods primarily as a result of the growth in business from professional customers.

The net sales continue to be negatively impacted by the weak economic environment in New England served by the Company's 10 Somerville stores. The following table sets forth percentage changes in comparable store sales for the thirteen weeks and the twenty-six weeks ended May 30, 1992 and May 25, 1991, respectively:

	Thirteen Weeks		Twenty-Six Weeks	
	1992	1991	1992	1991
All stores	7.4 %	7.5 %	7.2 %	5.8 %
All stores other than Somerville stores	8.8 %	8.3 %	8.8 %	6.5 %
Somerville stores	(5.5)%	(0.1)%	(7.0)%	(1.1)%

PAYLESS CASHWAYS, INC. AND SUBSIDIARY

MANAGEMENT DISCUSSION AND ANALYSIS - Continued

The Company expects the New England economic environment to remain weak during 1992, but believes it is well positioned to outperform the region's retail market.

Costs and Expenses

Cost of merchandise sold, as a percent of sales, for the second quarter of 1992 as compared to the same period of 1991 decreased to 70.2% from 70.3%. For the first half of 1992 cost of merchandise sold decreased to 69.1% from 69.3%, as a percent of sales, compared to the first half of 1991. Decreases for both periods are due primarily to favorable physical inventory results in the 1992 periods.

Selling, general and administrative expenses were 20.7% and 20.8% of sales for the second quarter of 1992 and 1991, respectively. Selling, general and administrative expenses were 23.3% of sales for both the first half of 1992 and 1991.

In the second quarter of 1992 the Company also recorded a \$6.5 million special charge to reflect the fees and expenses incurred in connection with the Company's withdrawn recapitalization plan discussed below.

The provision for depreciation and amortization for the quarter and year-to-date period ended May 30, 1992 and have decreased compared to the same periods of 1991 because capital expenditures have decreased since the 1988 Acquisition.

Interest expense for the quarter ended May 30, 1992 and for the first half of 1992 were relatively unchanged compared to the same periods of 1991. Approximately \$56.4 million of scheduled debt payments were made between May 25, 1991 and May 30, 1992, but the accretion of interest on the Company's junior subordinated debentures offset the cash interest savings.

Net Income (Loss)

Net income for the quarter ended May 30, 1992 decreased to \$3.5 million compared to \$4.3 million for the same period of 1991, reflecting the \$6.5 million pretax special charge discussed above. Net loss for the first half of 1992 was \$26.2 million compared to a net loss of \$21.4 million in the previous year. The increase in the net loss was the result of the above-mentioned special charge and a \$6.9 million charge (after reduction for income tax benefits of \$3.6 million) recorded in the first quarter of 1992 for a change in accounting principle effective December 1, 1991, when the Company adopted Statement of Financial Accounting Standards No. 106 and changed its method of accounting for postretirement benefits other than pensions. The effective tax rate for the first half of 1992 was 11.5% compared to 11.2% for 1991.

Liquidity and Capital Resources

The Company's principal source of cash is from operations. Cash provided by operating activities was \$32.0 million for the first half of 1992 compared to \$37.4 million for the same period of 1991. The decrease in cash flow is primarily attributable to changes in prepaid expenses and other current assets.

PAYLESS CASHWAYS, INC. AND SUBSIDIARY

MANAGEMENT DISCUSSION AND ANALYSIS - Continued

In February 1992, the Company filed certain registration statements with the Securities and Exchange Commission in anticipation of a recapitalization. The recapitalization plan included a tender offer for the Company's senior subordinated debentures, the repurchase of the Company's junior subordinated debentures and the amendment and restatement of the Merger Credit Agreement. The recapitalization plan was designed to increase shareholder's equity, reduce the Company's debt and interest expense, increase the Company's access to capital markets and improve the Company's operating and financial flexibility. In May, 1992, the Company determined that it could not complete its equity offering within the parameters which the Company believed were beneficial to the Company and its investors. Therefore, the Company decided to withdraw the equity offering and the other components of its proposed recapitalization.

Borrowings are available under the Merger Credit Agreement to supplement cash generated by operations. At May 30, 1992, \$59.4 million was available for borrowing. At May 30, 1992, working capital was \$87.8 million compared to \$65.6 million and \$70.8 million at November 30, 1991 and May 25, 1991, respectively. The current ratios at May 30, 1992, November 30, 1991, and May 25, 1991, were 1.23 to 1, 1.19 to 1 and 1.20 to 1, respectively.

The Company spent approximately \$6.8 million and \$22.1 million for equipment and renovation of retail facilities and distribution centers during the first half of 1992 and 1991, respectively. The Company intends to finance the remaining fiscal 1992 budgeted capital expenditures of approximately \$33 million, consisting of additional equipment and improvement of existing stores, with funds generated from operations.

Although the Company's consolidated indebtedness is and will continue to be substantial, management believes that, based upon its analysis of the Company's financial condition, the cash flow generated from operations during the past 12 months and the expected results of operations in the future, cash flow from operations and borrowings under the Revolving Credit Facility should provide sufficient liquidity to meet all cash requirements for the next 12 months without additional borrowings. However, there can be no assurance that future developments or general economic trends will not adversely affect the Company's operations or its ability to meet such obligations. In addition, the Company anticipates that certain financial covenants under the Merger Credit Agreement will require amendment prior to September 1, 1994. The Company intends to either restructure its capitalization, refinance its indebtedness or amend certain financial covenants prior to September 1, 1994. The Company is also in negotiations to extend the term of the Revolving Credit Facility from November 1993 to May 1995. However, there can be no assurance that the Company will accomplish these objectives by the required dates.

REVIEW BY INDEPENDENT AUDITORS

The condensed consolidated financial statements of Payless Cashways, Inc. and its subsidiary for the quarters ended May 30, 1992, and May 25, 1991, have been reviewed by KPMG Peat Marwick, independent auditors. Their report is included in this filing.

PAYLESS CASHWAYS, INC. AND SUBSIDIARY

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

Action in writing, dated as of May 1, 1992, in lieu of a special meeting of shareholders. The shareholders unanimously: 1) waived the right (referenced in Section 1 of the Registration Rights Agreement) to demand registration of any shares held by them as a part of the proposed initial public offering of common stock of the Company, which waiver was never effectuated because it was contingent upon consummation of the proposed initial public offering which was withdrawn; and 2) approved the amendment to subparagraph B of Section 3 of the 1988 Payless Cashways, Inc. Employee Stock Plan (approval of the use of cashless exercises).

Item 6. Exhibits and Reports on Form 8-K.

a. Exhibits.

- 4.0 Long-term debt instruments of the Registrant in amounts not exceeding ten percent (10%) of the total assets of the Registrant and its subsidiaries on a consolidated basis will be furnished to the Commission upon request.
- 10.1 Amendment to the 1988 Payless Cashways, Inc. Employee Stock Plan, dated as of May 1, 1992 (incorporated by reference to Exhibit 10.26 filed as part of Post-Effective Amendment No.7 to Registration Statement No. 33-23893 on Form S-2 filed May 26, 1992).
- 10.2 Corporate Management Incentive Compensation Program, dated as of December 1991.
- 11.1 Computation of per share earnings.
- 15.1 Letter re unaudited financial information - KPNG Peat Marwick.

b. Reports on Form 8-K.

The Registrant filed one report on Form 8-K during the quarter ended May 30, 1992. The report was dated April 8, 1992, and contained Item 5, Other Events. No financial statements were filed with this report.

SIGNATURE

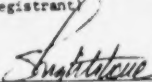
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PAYLESS CASHWAYS, INC.
(Registrant)

Date

June 30, 1992

By



Stephen A. Lightstone, Senior Vice President,
Finance and Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

CORPORATE MANAGEMENT INCENTIVE COMPENSATION PROGRAM

December 1991

PAYLESS CASHWAYS, INC.

CORPORATE MANAGEMENT

ANNUAL INCENTIVE COMPENSATION PROGRAM

TABLE OF CONTENTS

I.	COMPENSATION POLICY AND OBJECTIVES.....	1
II.	INCENTIVE COMPENSATION PROGRAM	
	Eligibility Requirements.....	2
	Target Incentive Pay.....	2
	Incentive Award Determination.....	3
	Incentive Award Determination Adjustments.....	4
	Distribution of Incentive Award Payments.....	6
	Plan Administration.....	6
	Incentive Award Schedule.....	7
III.	RECEIPT FORM	
	Receipt Form.....	8

PAYLESS CASHMAYS, INC.

CORPORATE MANAGEMENT

COMPENSATION POLICY AND OBJECTIVES

Compensation is a critical factor in attracting, retaining and motivating personnel. As such, an effective compensation program is essential to the overall long-term success of our Company.

The compensation program for Corporate Management personnel has been designed to compensate individuals in accordance with their skills and responsibilities and to reward superior performance.

Specific objectives for the compensation program are as follows:

- Promote internal equity.
- Recognize and reward achievements through the use of a goal oriented incentive compensation program which provides incentive compensation for achievement of predetermined performance objectives.
- Promote a sense of team effort in which all management personnel share in the rewards of superior performance.
- Recognize and reward superior performance for achievement of a critical performance objective, the achievement of specified EBITD levels.

PAYLESS CASHWAYS, INC.

CORPORATE MANAGEMENT

ANNUAL INCENTIVE COMPENSATION PROGRAM

ELIGIBILITY REQUIREMENTS

To be eligible for participation in the Corporate Management Incentive Plan, an individual must be a regular, full-time employee whose position in the Payless Cashways job classification system is Grade E8 or above. Individuals whose position is Grade E7 and who have two exempt subordinates may be granted eligibility. This determination will be made by the Senior Vice President - Human Resources.

Employees hired or promoted into an eligible position during the plan year may participate on the first day of the fiscal month following their date of employment or promotion.

TARGET INCENTIVE PAY

At the beginning of each fiscal year, the annual target incentive pay will be established for all plan participants. The target incentive pay reflects a specific percentage of an employee's actual base compensation for the plan year. The target percentage for Corporate Management begins at 12% of base compensation.

This target incentive pay will remain unchanged for the balance of the plan year unless those conditions outlined below are met. (See Incentive Award Determination Adjustments.) Actual base compensation paid during the year will be used in calculating earned awards.

INCENTIVE AWARD DETERMINATION

The incentive award under the Corporate component will be earned based upon achievement of specified EBITD levels, as established by the Compensation Committee of the Board of Directors. The award schedule will be as follows:

<u>% OF EBITD ATTAINED</u>	<u>% OF TARGET INCENTIVE PAID</u>
90%	50%
91%	55%
92%	60%
93%	65%
94%	70%
95%	75%
96%	80%
97%	85%
98%	90%
99%	95%
100%	100%
101%	105%
102%	110%
103%	115%
104%	120%
105%	125%
106%	130%
107%	135%
108%	140%
109%	145%
110% and above	150%

INCENTIVE AWARD DETERMINATION ADJUSTMENTS

Partial prorated awards shall occur in accordance with the following guidelines.

1. New Hires.

Employees hired into eligible positions during the plan year shall be eligible for incentive pay. Earned incentive awards shall be based on the plan formula, the number of completed fiscal months of service since the date of employment, and the actual wages earned during the eligible period.

2. Promoted Into Eligible Position.

Employees promoted into eligible positions shall be eligible for incentive pay. Earned incentive awards shall be based on the plan formula, the number of completed fiscal months of service since the date of eligibility, and the actual wages earned during the eligible period.

3. Promoted From One Eligible Position to Another Eligible Position.

If an employee is promoted into a position which has a different formula for determining the target incentive pay, the old formula will apply for the completed fiscal months in the former position, and the new formula will apply for completed fiscal months in the new position. Month of transfer shall be credited to the position which is held at the beginning of the fiscal month.

4. Reclassification.

If an employee's current position is reclassified and assigned to a new grade in the Payless Caseworks job classification program, the target incentive pay shall be adjusted in accordance with the procedures for a promotion, if assigned to a higher grade or for a demotion, if assigned to a lower grade.

5. Demotion.

If an employee is demoted into a position which has a different formula for determining the target incentive pay, the old formula will apply for the completed fiscal months in the former position and the new formula will apply for completed fiscal months in the new position. Month of transfer shall be credited to the position which is held at the beginning of the fiscal month.

An eligible participant who is demoted to a position which is not eligible for participation in the plan shall receive a prorated award based on the plan formula, the number of completed fiscal months of service in the eligible position, and the actual wages earned during the eligible period.

INCENTIVE AWARD DETERMINATION ADJUSTMENTS (Cont'd.)

6. Interrupted Service.

If an employee's service is interrupted during the plan year, for a period in excess of 90 days due to short or long term disability and/or other approved leaves of absence, he/she shall receive, if earned, an incentive award, which has been prorated based on the plan formula and the number of completed fiscal months of active service during the plan year plus first 90 days of leave.

Award Forfeiture Shall Occur in Accordance with the following guidelines:

7. Involuntary Termination.

An employee in the plan who, during the plan year, is involuntarily terminated for such reasons as facility closing or reduction in force, shall be deemed not to have a vested right to an incentive award for the current plan year.

An employee in the plan who, at any time prior to distribution, is involuntarily terminated for performance deficiencies shall be deemed not to have a vested right to an incentive award for the current plan year or the prior plan year.

8. Termination for Violation of Company Policy.

An employee in the plan who, at any time prior to distribution, is involuntarily terminated or resigns in lieu of involuntary termination for violation of company policy shall be ineligible for any incentive award for the current plan year or for the prior plan year.

9. Voluntary Termination.

An employee in the plan who terminates voluntarily during the plan year shall be deemed not to have a vested right to an incentive award for the current plan year.

DISTRIBUTION OF INCENTIVE AWARD PAYMENTS

Distribution of earned incentive awards shall be made by February 15 following the end of the plan year.

Awards are issued by check and are subject to applicable government withholding taxes. Participant elected benefit deductions, such as MoneyBuilder will be taken from incentive award payments.

PLAN ADMINISTRATION

This plan is established effective the first day of the fiscal year of 1992, December 1, 1991, and continues each fiscal year unless modified or until further notification.

Payless Cashways, Inc. reserves the right to amend the plan. The Compensation Committee of the Board of Directors shall have discretion with respect to the continuance or amendment of the Corporate Management Incentive Compensation Program. Administration of the Incentive Compensation Program shall be under the direction of the Senior Vice President - Human Resources. Questions that may arise relating to the interpretation or administration of the compensation policy shall be resolved by the Senior Vice President - Human Resources.

PAYLESS CASHMATS, INC.
CORPORATE MANAGEMENT
INCENTIVE AWARD SCHEDULE

<u>Salary Grade</u>	<u>Annual Incentive % of Salary</u>
E8	12
E9	14
E10	16
E11	18
E12	24
E13	30
E14	33
E16	40
E17	40

~~CORPORATE MANAGEMENT~~
INCENTIVE COMPENSATION PROGRAM MANUAL

RECEIPT FORM

I certify that I have received a copy of the Payless Cashways, Inc. Corporate Management Incentive Compensation Program Manual.

EMPLOYEE SIGNATURE _____

DATE _____

Please sign and date the receipt form below and return it to the Personnel Information Center within two weeks. The receipt will be placed in your personnel file.

The Company reserves the right to interpret, amend, modify, cancel, or discontinue at any time any provisions of the described policies and program. Also, language used in this Corporate Management Incentive Compensation Program Manual is not intended to create, nor is it to be construed to constitute, a contract.

-8-

~~CORPORATE MANAGEMENT~~
INCENTIVE COMPENSATION PROGRAM MANUAL

RECEIPT FORM

I certify that I have received a copy of the Payless Cashways, Inc. Corporate Management Incentive Compensation Program Manual.

PRINT NAME _____ LOCATION _____

EMPLOYEE SIGNATURE _____

DATE _____

This receipt will be placed in your personnel file.

PAYLESS CASHWAYS, INC. AND SUBSIDIARY

COMPUTATION OF PER SHARE EARNINGS

(In thousands, except per share amounts)

	<u>Thirteen Weeks Ended</u>		<u>Twenty-Six Weeks Ended</u>	
	<u>May 30,</u>	<u>May 25,</u>	<u>May 30,</u>	<u>May 25,</u>
	<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>
<u>PRIMARY</u>				
Income (loss) before cumulative effect of change in accounting principle	\$ 3,509	\$ 4,287	\$ (19,283)	\$ (21,382)
Deduct:				
Preferred stock dividends	<u>(1,079)</u>	<u>(996)</u>	<u>(2,135)</u>	<u>(1,973)</u>
Income (loss) before cumulative effect of change in accounting principle available to common shareholders	\$ 2,430	\$ 3,291	\$ (21,418)	\$ (23,355)
Weighted average common and dilutive common equivalent shares outstanding	<u>7,576</u>	<u>7,648</u>	<u>6,571</u>	<u>6,571</u>
Income (loss) per common share before cumulative effect of change in accounting principle	<u>\$.32</u>	<u>\$.43</u>	<u>\$ (3.26)</u>	<u>\$ (3.55)</u>
Cumulative effect on prior years of change in accounting for postretirement benefits	\$ --	\$ --	\$ (6,902)	\$ --
Weighted average common and dilutive common equivalent shares outstanding	<u>7,576</u>	<u>7,648</u>	<u>6,571</u>	<u>6,571</u>
Cumulative effect of change in accounting principle per common share	<u>\$ --</u>	<u>\$ --</u>	<u>\$ (1.05)</u>	<u>\$ --</u>
Net income (loss) per common share	<u>\$.32</u>	<u>\$.43</u>	<u>\$ (4.31)</u>	<u>\$ (3.55)</u>

Certified Public Accountants

1600 Commerce Bank Building
P.O. Box 13127
Kansas City, MO 64109

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors
Payless Cashways, Inc.:

We have reviewed the condensed consolidated balance sheets of Payless Cashways, Inc. and subsidiary as of May 30, 1992 and May 25, 1991 and the related condensed consolidated statements of operations and cash flows for the twenty-six weeks then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

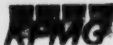
Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of November 30, 1991 and the related consolidated statements of operations, shareholders' equity and cash flows, and in our report thereon, we expressed an unqualified opinion on those consolidated financial statements.

KPMG Peat Marwick

KPMG Peat Marwick

Kansas City, Missouri
June 15, 1992



Peat Marwick

Certified Public Accountants

1600 Commerce Bank Building
PO Box 13127
Kansas City MO 64199

Payless Cashways, Inc.
Kansas City, Missouri

Gentlemen:

Registration Statement: No. 33-24368

With respect to the subject Registration Statement, we acknowledge our awareness of the use therein of our review report dated June 15, 1992, related to our review of interim financial information.

Pursuant to Rule 436(c) under the Securities Act of 1933, such report is not considered a part of a Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Securities Act.

KPMG Peat Marwick

KPMG Peat Marwick

Kansas City, Missouri
July 1, 1992